While it is important that emergency services are able to establish location, I think it is also important that:

(a) privacy is maintained.

This could be done by only requiring the handset to send locations on emergency calls (911,112, 000, 111, ...), and requesting the user if another party requests location information (thus extending the protocol). For example, this could be used for calling the local police station (not a recognised emergency number), or even pizza delivery.

Police tracing should not be automatic, rather it should require clearance and at

least basic encryption.

Phone companies should not be able to determine location, unless authorised by the user.

(b) Cost to end-users is minimised

This could be done by allowing for phones that only store their current location, with a motion sensor to prompt for it to be re-set when moved, as well as GPS-enabled phones for the more portable phones. Fixed office phones probably need more than just a GPS location - a floor number, for example, would be usefull for directing emergency services.